1963 ANNUAL REPORT

RAPID-AMERICAN CORPORATION

RAPID-AMERICAN CORPORATION

Annual Report

FOR THE YEAR ENDED JANUARY 31, 1964

RAPID-AMERICAN CORPORATION

DIRECTORS

Isidore A. Becker
George V. Delson
Bernard Kobrovsky
Leonard C. Lane
Samuel J. Levy
Samuel Neaman
Meshulam Riklis
Lorence A. Silverberg
Murray J. Toussie
Harry H. Wachtel
Jacob S. Weinstein

EXECUTIVE COMMITTEE

Jacob S. Weinstein . . . *Chairman*
Meshulam Riklis
Lorence A. Silverberg
Murray J. Toussie
Harry H. Wachtel

OFFICERS

Meshulam Riklis . . . *Chairman of the Board & President*
Harry H. Wachtel . . *Vice Chairman of the Board & Executive Vice President*
Anthony W. Trapani . *Vice President & Treasurer*
Joseph B. Russell . . *Secretary*

AUDITORS

Haskins & Sells, New York, N. Y.

GENERAL COUNSEL

Wachtel & Michaelson, New York, N. Y.

TAX ADVISORS

Hanigsberg, Delson & Broser, New York, N. Y.

TRANSFER AGENT

Chemical Bank New York Trust Company, New York, N. Y.

REGISTRAR

The Chase Manhattan Bank, New York, N. Y.

LISTINGS

American Stock Exchange (Common Stock & Debentures)
Cincinnati Stock Exchange (Common Stock)

EXECUTIVE OFFICES

711 Fifth Avenue, New York 22, N. Y.

To Our Shareholders:

May 1, 1964

At the close of last year, we stated our objective to be that of "finding and applying the best techniques for obtaining a maximum return on our shareholders' dollars". In our considered judgment, that objective will be best attained by concentration of our energies and efforts on our major asset, McCrory Corporation, which has the maximum potential for growth and for return on invested capital.

Thus, during the year ended January 31, 1964, we sold Harris Standard Paint Division, the fixed assets of the American Art Works Division, and the assets and businesses of the New York and Philadelphia plants of The Rapid Electrotype Company, retaining only the San Francisco plant. With the overwhelming approval of shareholders at a meeting held during December, we sold the Children's Wear Division, Cellu-Craft Products Division and Citrus Products Division.

The year ended January 31, 1964 was the first full year of consolidation of operations of our majority-owned subsidiary, McCrory Corporation. A copy of the 1963 annual report of McCrory Corporation is included in this report.

On consolidated sales of $569,403,447, Rapid-American's consolidated loss, before special items, was $1,600,733. However, based upon our expectation of continued prosperity in the nation's economy and upon the significant improvements made by McCrory Corporation during the past year, management believes that the current year will see a reversal of this loss and the start of an upward trend.

Respectfully submitted,

M. Riklis

M. RIKLIS
Chairman of the Board and President

RAPID-AMERICAN

CONSOLIDATED

ASSETS

CURRENT ASSETS:		
Cash		$ 13,662,199
Accounts and notes receivable:		
Trade	$ 4,479,161	
Equity in installment accounts sold (the uncollected balances of which amount to $23,240,448)	1,584,238	
Other	2,666,131	
	8,729,530	
Less reserves	1,631,186	7,098,344
Inventories—at lower of cost or market—(Note 14)		92,551,818
Prepaid expenses, etc.		2,273,524
Notes and mortgages receivable		1,626,849
TOTAL CURRENT ASSETS		117,212,734
PROPERTY, PLANT, EQUIPMENT AND LEASEHOLD IMPROVEMENTS—At cost	157,342,999	
Less accumulated depreciation and amortization	78,207,381	79,135,618
OTHER ASSETS AND DEFERRED CHARGES:		
Excess of McCrory's purchase cost of 1,263,617 shares (99% ownership) of Lerner Stores Corporation common stock over underlying net equity at dates of acquisition—(Note 13)	17,075,188	
Excess of cost of investment in McCrory Corporation over underlying net equity at date of acquisition—(Note 1)	1,549,984	
Unamortized debt discount and expense	8,721,266	
Investment in and advances to subsidiary not consolidated—(Notes 7 and 19)	5,564,406	
Mortgages and sundry receivables—(Note 3)	3,140,383	
Goodwill, less amortization of $276,811	1,075,817	
Other deferred charges and sundry—(Note 11)	2,695,204	39,822,248
TOTAL		$236,170,600

See notes to financial statements.

CORPORATION AND SUBSIDIARIES (NOTE 1)

BALANCE SHEET JANUARY 31, 1964

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:		
Accounts payable		$ 28,546,247
Notes payable to banks		1,860,000
Current maturities of long-term debt—(Notes 4 and 12)		6,770,817
Accrued liabilities:		
Taxes, other than Federal income taxes		5,061,873
Salaries, wages, commissions, etc.		3,313,932
Interest		1,487,257
Other		4,025,893
TOTAL CURRENT LIABILITIES		51,066,019
LONG-TERM DEBT—Less current maturities—(Notes 4 and 12)		92,879,616
DEFERRED LIABILITIES:		
Deferred Federal income taxes—(Note 10)	$ 8,814,762	
Other	1,927,904	10,742,666
MINORITY INTEREST IN SUBSIDIARY COMPANIES		70,802,636
SHAREHOLDERS' EQUITY (per accompanying statement):		
5% cumulative preferred stock, $100 par value per share, redeemable at $105 per share; authorized 200,000 shares—none issued		
Common stock—authorized 10,000,000 shares of $1 par value per share; issued 2,136,243 shares; less stock in treasury 34,536 shares; outstanding 2,101,707 shares—(Notes 4 and 5)	2,101,707	
Capital surplus	14,252,903	
Deficit—(Note 4)	(4,571,769)	
	11,782,841	
Less equity in subsidiary's cost of its treasury stock	1,103,178	10,679,663
TOTAL		$236,170,600

See notes to financial statements.

RAPID-AMERICAN CORPORATION

AND SUBSIDIARIES (NOTE 1)

STATEMENT OF CONSOLIDATED INCOME

FOR THE YEAR ENDED JANUARY 31, 1964

NET SALES		$569,403,447
INVESTMENT INCOME, EARNINGS OF SUBSIDIARY NOT CONSOLIDATED (Note 7), AND SUNDRY INCOME (Net)		2,211,212
		571,614,659
COST OF GOODS SOLD, RENT, ETC.		407,222,959
		164,391,700
DEDUCT:		
Operating, general and administrative expenses	$129,450,542	
Interest charges	9,996,916	
Depreciation and amortization	9,406,532	
Taxes, other than Federal income taxes	11,361,173	160,215,163
INCOME BEFORE DEFERRED FEDERAL INCOME TAXES, EXTRAORDINARY EXPENSES AND EQUITY APPLICABLE TO SHARES OF SUBSIDIARIES IN HANDS OF THE PUBLIC		4,176,537
PROVISION FOR DEFERRED FEDERAL INCOME TAXES		2,816,000
INCOME BEFORE EXTRAORDINARY EXPENSES AND EQUITY APPLICABLE TO SHARES OF SUBSIDIARIES IN HANDS OF THE PUBLIC		1,360,537
EXTRAORDINARY EXPENSES of York Distribution and Data Processing Center, net of Federal tax benefit—(Note 8)		1,033,588
INCOME BEFORE EQUITY APPLICABLE TO SHARES OF SUBSIDIARIES IN HANDS OF THE PUBLIC		326,949
EQUITY APPLICABLE TO SHARES OF SUBSIDIARIES IN HANDS OF THE PUBLIC		1,927,682
NET (LOSS) APPLICABLE TO SHAREHOLDERS OF RAPID-AMERICAN CORPORATION		(1,600,733)
SPECIAL ITEMS (LOSS):		
Net (loss) on sale or discontinuance of businesses and other property, plant and equipment—(Note 2)	(3,978,527)	
Write-down of certain notes receivable to estimated realizable value—(Note 3)	(1,500,000)	
Equity in special credit of McCrory Corporation—(Note 10)	417,673	(5,060,854)
NET (LOSS) AND SPECIAL ITEMS (LOSS) APPLICABLE TO SHAREHOLDERS OF RAPID-AMERICAN CORPORATION		$ (6,661,587)

See notes to financial statements.

RAPID-AMERICAN CORPORATION

AND SUBSIDIARIES (NOTE 1)

STATEMENT OF SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED JANUARY 31, 1964

	OUTSTANDING COMMON STOCK	CAPITAL SURPLUS	EARNED SURPLUS (DEFICIT)	EQUITY IN SUBSIDIARY'S COST OF ITS TREASURY STOCK
BALANCE, FEBRUARY 1, 1963	$2,035,854	$13,806,394	$ 2,934,607	$(478,123)
ADD (DEDUCT):				
Net (loss) and special items (loss) per accompanying statement of consolidated income			(6,661,587)	
Cash dividends paid, $.12½ per share . .			(255,125)	
Stock dividend (3%)—$7,167 cash paid in lieu of fractional shares and 60,337 shares issued; par value credited to common stock; excess of market quotation value over par value credited to capital surplus	60,337	414,817	(482,321)	
Stock issued under employee plans—5,715 shares; par value credited to common stock; excess of proceeds over par value credited to capital surplus	5,715	33,509		
Equity in net changes of subsidiary for the year ended January 31, 1964 exclusive of amounts shown in "net (loss) and special items (loss)" above		1,583	(107,343)	(625,055)
Other	(199)	(3,400)		
BALANCE, JANUARY 31, 1964	$2,101,707	$14,252,903	$(4,571,769)	$(1,103,178)

See notes to financial statements.

ACCOUNTANTS' OPINIONS

RAPID-AMERICAN CORPORATION:

We have examined the consolidated balance sheet of Rapid-American Corporation and subsidiaries (excluding McCrory Corporation and subsidiary companies) as of January 31, 1964 and the related statements of consolidated income and shareholders' equity for the periods of one year or less then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. In our opinion, the financial statements and their notes examined by us present fairly the financial position of Rapid-American Corporation and subsidiaries (excluding McCrory Corporation and subsidiary companies) at January 31, 1964 and the results of their operations for the indicated periods then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The accompanying financial statements of Rapid-American Corporation and subsidiaries present the consolidation of the above-mentioned financial statements examined by us with those of McCrory Corporation and subsidiary companies examined by Messrs. Arthur Andersen & Co., whose opinion appears below. The total assets of McCrory Corporation and subsidiary companies included in such consolidated financial statements approximate 97% of the consolidated total, and their sales for the year ended January 31, 1964 are almost 100% of the consolidated total. We have checked the compilation of such accompanying consolidated financial statements and notes and, in our opinion, these have been properly compiled.

New York, N. Y.
April 24, 1964

HASKINS & SELLS
Certified Public Accountants

TO THE SHAREHOLDERS OF McCRORY CORPORATION:

We have examined the consolidated balance sheet of McCrory Corporation (a Delaware corporation) and subsidiary companies as of January 31, 1964, and the related statements of consolidated net income and consolidated surplus for the year then ended, none of which financial statements is set forth separately herein. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records of the Company and its wholly-owned subsidiaries and such other auditing procedures as we considered necessary in the circumstances. The financial statements of Lerner Stores Corporation, whose net assets represent approximately 33% of the total net assets included in the consolidated financial statements, were not examined by us, but we were furnished with reports of other public accountants thereon.

In our opinion, based upon our examination and upon the reports of other public accountants referred to above, the above described consolidated balance sheet and the related statements of consolidated net income and consolidated surplus present fairly the financial position of McCrory Corporation and subsidiary companies as of January 31, 1964, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

New York, N. Y.
April 10, 1964.

ARTHUR ANDERSEN & CO.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES (RAPID)
McCRORY CORPORATION AND SUBSIDIARY COMPANIES (McCRORY)

NOTES TO FINANCIAL STATEMENTS

1. Rapid—Principles of consolidation:

The Rapid consolidated financial statements include the accounts of Rapid and its operating subsidiaries including McCrory (Rapid, at January 31, 1964, owns a little more than 51% of McCrory's common stock).

Rapid's investment in McCrory at date of acquisition (September 30, 1962) was in excess of its equity in the net assets of McCrory in the amount of $1,549,984. The management of Rapid has determined that the McCrory excess cost has not declined in value and is accordingly not subject to amortization. Prior to February 1, 1963, Rapid followed the practice of amortizing excess cost over the ten fiscal years subsequent to date of acquisition; the effect of the above determination on the net loss and special items (loss) for the year ended January 31, 1964 is not material.

Dividends received by Rapid from McCrory amounted to $2,129,274 for the year ended January 31, 1964.

2. Rapid—Sale and discontinuance of businesses, etc.:

During the year Rapid sold the following units:

Harris Standard Paint Division in April 1963.
Children's Wear Division in June 1963.
Citrus Products Division in October 1963.
Cellu-Craft Products Division in November 1963.
Rapid Electrotype Company (Pennsylvania) and Atlantic Electrotype Division in December 1963.

During the year Rapid substantially completed liquidation of its American Art Works Division and continued the liquidation of its mail order business and the Cincinnati plant of the Rapid Electrotype Division. These units are still in process of liquidation at January 31, 1964. Rapid's investment in the remaining assets of these units has been written down to estimated net realizable value at January 31, 1964 and provision has also been made for estimated future liabilities in connection with the completion of these liquidations.

3. Rapid—Receivables from APS Paper Corp.:

As of January 31, 1961, Rapid completed the sale of the assets and business of its American Paper Specialty Division to APS Paper Corp. (a corporation organized by and owned in part by former officers and employees of Rapid). At January 31, 1964, Rapid held $6,750,000 of notes receivable relating to such sale and other receivables of $42,340 due from APS Paper Corp. These notes and accounts receivable are stated at estimated realizable value in the accompanying consolidated balance sheet.

4. Rapid—Long-term debt:

Long-term debt at January 31, 1964 consisted of the following:

7% sinking fund subordinated debentures due November 15, 1967, less debentures in treasury, $120 (a)	$ 2,250,584
5¾% convertible subordinated debentures due January 1, 1977 (b)	13,199,940
5%-6% notes due 1965 to 1976 (less current maturities, $463,912) (c)	22,575,000
	$38,025,524

(a) Rapid is obligated to make annual sinking fund payments (or to deposit principal amounts of reacquired debentures) on each November 15 sufficient to redeem 10% of debenture principal outstanding on the preceding October 31 of the years 1964 through 1966, inclusive.The sinking fund payment due November 15, 1963 was satisfied by the retirement of debentures acquired under an exchange offer made in February 1962. The sinking fund payments due November 15 of the years 1964 through 1966 will be satisfied out of the remaining $1,753,400 of debentures received in the aforementioned exchange.

(b) During the year ended January 31, 1964, Rapid issued $750,000 principal amount of these debentures; however, this principal amount is subject to change under certain circumstances.

The issued debentures are convertible into common stock of Rapid at $32.37 principal amount of debentures for each share of common stock, subject to anti-dilution provisions of the indenture, and are callable upon notice at principal amount with interest to redemption date.

(c) These notes are collateralized by the pledge of 2,661,268 shares of McCrory Corporation common stock which are owned by Rapid. Rapid's investment in McCrory common stock at January 31, 1964 aggregated 2,661,268 shares (a little over 51% of the outstanding common stock of McCrory Corporation). The acquisition cost of these shares to Rapid was $46,453,938 and such shares are carried on Rapid's books at $46,333,011 on January 31, 1964, representing Rapid's portion of McCrory common stock equity at that date. Such shares had a market quotation value of $28,275,972 at January 31, 1964.

Agreements covering the indebtedness of Rapid contain various covenants concerning working capital position, additional indebtedness, and various restrictions on transactions in capital stock. Such agreements also contain covenants which limit the declaration and payment of dividends. At January 31, 1964, there was no earned surplus available for the payment of dividends. In January 1964, Rapid entered into an agreement which extended the payment dates on portions of its indebtedness and waived the working capital restrictions until July 31, 1965.

The aggregate of long-term debt maturing during the five years ended January 31, 1969 is as follows:

1965 (included in current liabilities)	$ 463,912
1966	11,075,000
1967	1,500,000
1968	3,250,584
1969	1,000,000

Interest charges incurred by Rapid amounted to $2,498,224 for the year ended January 31, 1964.

5. Rapid—Common stock and stock options:

During the year ended January 31, 1964, Rapid sold 5,715 shares of its common stock pursuant to the terms of its employee plans at an aggregate price of $39,225; the market quotation value of such shares on the dates of sale aggregated $99,848. Options covering 110,806 shares are outstanding at January 31, 1964, expiration dates are from 1964 to 1970, option prices aggregate $2,439,955, and their approximate aggregate market quotation value on January 31, 1964 was $540,207.

At January 31, 1964, purchase warrants entitling their holders to purchase 400,000 shares of Rapid's common stock at $5 per share were outstanding, of which 300,000 expire on January 2, 1968 and 100,000 expire on June 1, 1976. The terms of these warrants are subject to adjustments under certain circumstances.

6. Rapid—Other matters:

(a) Rapid and its subsidiaries (except McCrory and subsidiary companies) are obligated directly under leases expiring after January 31, 1964 for minimum annual rentals of $96,000 and total rental obligations of $586,000. Of such total rental obligations, approximately $500,000 is related to two leases on locations at which operations have been discontinued. No specific provision has been made in the accompanying financial statements for future payments to be made on these two leases because the management of Rapid is of the opinion that such payments will be immaterial in amount.

(b) There are several claims, including derivative actions, pending against Rapid and subsidiaries together with other contingencies. Such liability cannot be determined but management and counsel are of the opinion that the liabilities in the financial statements are adequate to cover all eventual payments.

7. McCrory—Principles of consolidation:

The McCrory consolidated financial statements as of January 31, 1964, reflect the consolidation of the accounts of Lerner Stores Corporation (whose common stock is 99% owned) and all wholly-owned subsidiaries except McCrory Credit Corporation. The investment in the credit subsidiary not consolidated is stated in the consolidated balance sheet at the amount of McCrory's equity in the capital and undistributed earnings ($553,440) of such subsidiary at January 31, 1964. Net income ($321,050) of the nonconsolidated credit subsidiary for the year ended January 31, 1964, is included in the McCrory consolidated net income for that period. (See Note 19 for additional information on McCrory Credit Corporation.)

8. McCrory—Extraordinary expenses:

During 1963, McCrory opened a 750,000 square foot distribution and data processing center in York, Pennsylvania and began a program to close certain less efficient warehouses, as the York Distribution Center increased its level of operations. Since the Center's operations are still undergoing revision and have not yet reached designed or planned levels of throughput, applicable expenses exceeded the normal amounts charged to store operations by $1,033,588, net of Federal tax benefit. This amount has been shown as an extraordinary expense in the statement of consolidated income.

9. McCrory—Sale of divisions:

McCrory sold the business and net operating assets of the National Shirt Shops Division as of January 31, 1964, for book value, approximately $5,000,000. Accordingly, the consolidated balance sheet does not include these net operating assets although the sales, costs and expenses of the Division have been included in the statement of consolidated income for the year ended January 31, 1964.

During 1963, McCrory acquired the net assets and business of Harris Standard Paint Company and subsequently disposed of same. Both transactions were based on book values, and accordingly, the increase in the equity of Harris during the period of ownership, less the expenses involved in the sales, is reflected in investment income on the statement of consolidated income.

10. McCrory—Special credit—net:

The items included in the Special Credit in the McCrory consolidated financial statements for the year ended January 31, 1964, are as follows:

Reversal of prior year provisions for deferred Federal income taxes	$1,000,000
Loss on sale of the Yellow Front Stores, net of Federal income tax benefit	(111,957)
Expenses in connection with the proposed sale of Lerner Stores Corporation not consummated, net of Federal income tax benefit	(70,902)
Special Credit—Net	$ 817,141

In the opinion of McCrory and of Hanigsberg, Delson and Broser, tax advisors to McCrory, the reserves for deferred Federal income taxes exceeded the required amounts by $1,000,000; accordingly, this amount has been reflected as a Special Credit in the McCrory financial statements.

The Internal Revenue Service has not reviewed McCrory's Federal income tax returns for years subsequent to 1958, although it does have under review the tax returns of Lerner Stores Corporation and subsidiaries for the fiscal years ending in 1958, 1959 and 1960, and has proposed additional assessments for these years. The Lerner management believes that there is no merit to the proposed adjustments for all the years involved and that the ultimate disposition thereof would have no material effect on the Lerner financial statements (not presented separately herein); accordingly, no provision for additional Federal income taxes has been made for such items for years subsequent to 1958.

11. McCrory—Deferred charges:

McCrory deferred charges include $528,000, net of Federal income tax benefit, representing costs of development and preoperating expenses of the York Distribution Center and costs incurred in closing old warehouses. McCrory has recognized these costs as York Distribution Center start-up and training costs which should be charged against revenues derived in future operations and will amortize the deferred amount over a five-year period beginning in 1964.

12. McCrory—Long-term debt:

Long-term debt at January 31, 1964, including maturities due within one year, consisted of the following:

	Total	Current Maturities	Long-Term Debt
5½% sinking fund subordinated debentures, due 1976 (a) . . .	$36,040,960	$ —	$36,040,960
5.235% subordinated notes due in equal annual installments to 1971	14,290,276	1,786,285	12,503,991
3% sinking fund debentures due in 1967 (b)	4,277,000	477,000	3,800,000
Notes payable to bank—paid February 1, 1964	3,500,000	3,500,000	—
Mortgages payable	2,480,761	372,620	2,108,141
4% notes due in equal annual installments to 1967	265,000	67,000	198,000
3¾% notes due in annual installments to 1966	307,000	104,000	203,000
	$61,160,997	$6,306,905	$54,854,092

(a) Exclusive of $6,233,000 redeemed ($1,305,000 cancelled and $4,928,000 held in treasury, available for sinking fund requirements). Sinking fund requirements in each year (which may be satisfied, through 1967, with the aforesaid debentures held in treasury) are as follows: 1965 and 1966—$1,024,224; 1967 through 1971—$2,048,448; 1972 through 1976—$3,277,517, with a final payment of $12,290,687 due on August 14, 1976.

(b) Exclusive of $123,000 in treasury. Sinking fund requirements are $600,000 in each year to 1966 and $2,600,000 at maturity.

The restrictive covenants of McCrory's (a) indentures covering the 5½% sinking fund subordinated debentures and the 5.235% subordinated notes payable, and (b) $57,000,000 revolving credit agreement with several banks (under which there was no outstanding indebtedness at January 31, 1964) provide, among other matters, for the maintenance of specified amounts of working capital, as defined, and for certain limitations on indebtedness, as defined, which requirements at January 31, 1964, were met as follows:

(i) Consolidated working capital (as defined) which amounted to $67,209.081 must be maintained at least equal to $55,000,000.

(ii) Consolidated current assets were 245% of consolidated current liabilities (as defined) as compared to the 175% requirement.

(iii) Consolidated indebtedness (as defined) of $42,350,000 which should not be in excess of 50% of consolidated net worth, was $15,308,234 less than the maximum indebtedness allowed.

13. McCrory—Excess purchase cost of Lerner Stores Corporation common stock:

During 1961 and 1962, McCrory acquired 1,263,617 shares (99% ownership as of January 31, 1964) of Lerner Stores Corporation common stock principally as the result of a tender offer made on August 10, 1961. The aggregate cost of the investment in Lerner exceeded the McCrory equity in underlying Lerner net assets at dates of acquisitions by $17,075,188. This excess purchase cost has been recognized by the McCrory management to be similar in nature to intangibles which have not declined in value since date of acquisition. Accordingly, the McCrory management has adopted an accounting policy of not amortizing this excess purchase cost, so long as there is no recognized diminution in value of its investment in Lerner.

14. McCrory—Merchandise inventories:

McCrory's merchandise inventories, stated at the lower of cost or market, consist of the following:

Raw materials, including merchandise at contractors—at specific invoice cost or replacement cost		$ 528,119
Merchandise in transit, at warehouses, and at restaurants—at cost		18,054,491
Merchandise in stores—		
at retail method	$66,869,235	
at first-in, first-out cost	7,062,195	73,931,430
		$92,514,040

15. McCrory—Preferred and preference stock and warrants:

At January 31, 1964, there were 522,915 shares of McCrory common stock reserved for the conversion of preferred and preference stock, as follows:

Class of Stock	Redemption Price	January 31, 1964 Conversion Rate Common Shares For Preferred or Preference	Shares of Common Stock Reserved
3½% cumulative convertible preferred . .	$104	5 for 1	73,955
$6 cumulative convertible preference . .	115	3/14 for 1	20,298
5½% cumulative preference B	100	6-1/9 for 1	72,545
4½% cumulative preference B	100	2-6/7 for 1	356,117
			522,915

In addition, 2,673,467 shares of McCrory common stock were reserved for the exercise, at $20 per share, of warrants (expiring in 1976) issued in connection with the 1961 merger of H. L. Green and the 1961 purchase of Lerner stock.

Pursuant to certain restrictions in connection with the authorization of preferred stock, McCrory capital and earned surplus at January 31, 1964, in the approximate amount of $17,000,000 (including $15,417,719 restricted as the result of purchase of McCrory preference and common stock) are restricted as to future payments of dividends on the common stock or purchase or redemption of shares of its stock.

16. McCrory—Stock option and employee stock purchase plans:

Under McCrory's restricted stock option plans adopted during 1960 and 1961, options for 791,960 shares of common stock were outstanding at January 31, 1964 at prices ranging from $11.88 to $22.80 per share (95% of fair market value on dates of grant), of which 369,080 shares were exercisable at that date. There remain available 234,620 shares for future option grants under these Plans. Options to purchase 2,740 shares were exercised during the year at an aggregate option price of $34,986. There were no options granted during the year ended January 31, 1964 under these Plans.

Options granted are exercisable for a maximum of ten years. Options generally become exercisable to the extent of 20% each year on and after the anniversary dates of the grants with respect to the 1960 Plans, and 20% each year on and after the second anniversary dates of the grants with respect to the 1961 Plan. Options may not be sold, transferred, assigned, pledged or disposed of by the optionee except by will or laws of inheritance. In the event of termination of employment by resignation, disability or death, all options will expire within varying periods up to the full term of such options.

In addition to the foregoing restricted stock option plans, McCrory on January 31, 1964 granted to a key employee an option to purchase 15,000 shares of its common stock held in the treasury; the option price of $13.50 per share was 95% of the fair market value on the date of grant.

McCrory employee stock purchase plans adopted during 1960 and 1961 permit the grant of rights to purchase a total of 190,000 shares of common stock at 85% of the fair market value thereof on the dates of grant. Rights to purchase 10,827 shares were exercised during the year at an aggregate purchase price of $119,638, and at January 31, 1964, 35,645 shares were under subscription at prices ranging from $10.63 to $14.24. At January 31, 1964, rights for 115,671 shares were available for subscription.

17. McCrory—Pension plans:

Under McCrory's noncontributory retirement plan covering eligible employees of the McCrory-McLellan-Green Division, the cost of the plan will be met, as required, by periodic contributions to the trust fund. The amounts accumulated in the trust fund in respect of the McCrory-McLellan-Green plan, exceed the actuarial liability as computed by the consulting actuary. For this reason, no provision for costs under this plan was reflected in the statements of consolidated net income subsequent to 1960. Contributions of $400,000, net of Federal income tax benefit, required under the terms of other noncontributory retirement plans and profit sharing plans for employees of Oklahoma Tire and Supply and National Shirt Shops Divisions, and Lerner Stores Corporation, paid or accrued during the year, have been reflected in the statement of consolidated income.

18. McCrory—Lease commitments:

At January 31, 1964, the minimum annual rentals upon property leased to McCrory and its subsidiaries under leases expiring after January, 1967, amount to approximately $22,000,000, plus, in certain instances, real estate taxes, insurance, etc. McCrory remains contingently liable under certain long-term leases assumed by the respective purchasers in connection with several sales of store operations, particularly with respect to those of Butler Brothers and Metropolitan Stores, sold in prior years. However, McCrory has received from the purchasers valid and enforceable agreements of assumption of liabilities and indemnification in form satisfactory to counsel for McCrory.

19. McCrory—McCrory Credit Corporation:

McCrory Credit Corporation, a wholly-owned subsidiary of McCrory Corporation, was organized to (a) purchase retail installment sales paper from McCrory and subsidiaries and affiliates, and (b) through a separate leasing subsidiary, to acquire equipment for lease to the McCrory-McLellan-Green Division of McCrory Corporation under a 15-year lease agreement.

At January 31, 1964 the credit corporation and its subsidiaries had invested $23,700,000 in customers' deferred payment accounts of McCrory and subsidiaries and affiliates and an additional $1,500,000 in equipment purchased for rental. Financing of the foregoing had been provided principally from (1) $1,000,000 of equity funds and $4,000,000 in subordinated loans from McCrory Corporation and subsidiaries, (2) $18,750,000 in 4½% bank loans on unsecured notes of the credit corporation, and (3) a 5½% chattel mortgage for $1,500,000.

RAPID-AMERICAN CORPORATION

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